

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 19, 2013 Through April 15, 2014**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 19, 2013 Through April 15, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the Magoffin County Sheriff for the period April 19, 2013 through April 15, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,337,410 for the districts for 2013 taxes, retaining commissions of \$138,713 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,195,877 to the districts for 2013 taxes. Taxes of \$5,633 are due to the districts from the Sheriff and refunds of \$6,725 are due to the Sheriff from the taxing districts.

Report Comments:

- 2013-001 The Sheriff Failed To Comply With The Uniform System Of Accounts
- 2013-002 The Sheriff Should Make Interest Payments To The School And The Fee Account
- 2013-003 The Annual Settlement Of Tax Collections Should Be Timely Prepared
- 2013-004 The Sheriff's Office Should Report And Distribute Taxes Collected By The Tenth Of Each Month
- 2013-005 The Sheriff Should Distribute 10% Add-On Fees On A Monthly Basis
- 2013-006 The Sheriff Should Eliminate The Deficit In The 2010 Property Tax Account
- 2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Charles Hardin, Magoffin County Judge/Executive

Honorable Carson Montgomery, Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Magoffin County Sheriff's Settlement - 2013 Taxes for the period April 19, 2013 through April 15, 2014 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 19, 2013 through April 15, 2014 of the Magoffin County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2015 on our consideration of the Magoffin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
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Honorable Carson Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2013-001 The Sheriff Failed To Comply With The Uniform System Of Accounts
- 2013-002 The Sheriff Should Make Interest Payments To The School And The Fee Account
- 2013-003 The Annual Settlement Of Tax Collections Should Be Timely Prepared
- 2013-004 The Sheriff's Office Should Report and Distribute Taxes Collected By The Tenth Of Each Month
- 2013-005 The Sheriff Should Distribute 10% Add-On Fees On A Monthly Basis
- 2013-006 The Sheriff Should Eliminate The Deficit In The 2010 Property Tax Account
- 2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 20, 2015

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES

For The Period April 19, 2013 Through April 15, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 617,065	\$ 456,590	\$ 880,703	\$ 233,071
Tangible Personal Property	265,371	159,503	274,603	215,730
Fire Protection	2,956			
Franchise Taxes	195,843	118,059	203,735	
Penalties	6,306	4,611	8,862	2,525
Adjusted to Sheriff's Receipt	(208)	(9)	(38)	(23)
Gross Chargeable to Sheriff	<u>1,087,333</u>	<u>738,754</u>	<u>1,367,865</u>	<u>451,303</u>
<u>Credits</u>				
Exonerations	6,761	4,999	9,642	2,552
Discounts	10,512	7,414	14,000	4,482
Delinquents:				
Real Estate	55,426	40,880	78,853	20,868
Tangible Personal Property	<u>14,177</u>	<u>8,521</u>	<u>14,670</u>	<u>14,088</u>
Total Credits	<u>86,876</u>	<u>61,814</u>	<u>117,165</u>	<u>41,990</u>
Taxes Collected	1,000,457	676,940	1,250,700	409,313
Less: Commissions *	<u>42,519</u>	<u>28,770</u>	<u>50,028</u>	<u>17,396</u>
Taxes Due	957,938	648,170	1,200,672	391,917
Taxes Paid	958,900	642,703	1,202,026	392,248
Refunds (Current and Prior Year)	<u>1,146</u>	<u>828</u>	<u>1,500</u>	<u>438</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (2,108)</u>	<u>\$ 4,639</u>	<u>\$ (2,854)</u>	<u>\$ (769)</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES
For The Period April 19, 2013 Through April 15, 2014
(Continued)

* Commissions:

4.25% on \$ 2,086,710

4% on \$ 1,250,700

** Special Taxing Districts:

Library District \$ (415)

Health District 5,633

Extension District (490)

Soil Conservation District (89)

Due District or

(Refunds Due Sheriff) \$ 4,639

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MAGOFFIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2014
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Magoffin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 25, 2013 through April 15, 2014.

Note 4. Interest Income

The Magoffin County Sheriff earned \$311 as interest income on 2013 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of July 20, 2015, the Sheriff owed \$112 in interest to the school district and \$119 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Magoffin County Sheriff collected \$18,384 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2012	\$5,685
2011	\$ 520

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Hardin, Magoffin County Judge/Executive
Honorable Carson Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Magoffin County Sheriff's Settlement - 2013 Taxes for the period April 19, 2013 through April 15, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated July 20, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Magoffin County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2013-007 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, and 2013-006.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 20, 2015

COMMENTS AND RECOMMENDATIONS

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 19, 2013 Through April 15, 2014

STATE LAWS AND REGULATIONS:

2013-001 The Sheriff Failed To Comply With The Uniform System Of Accounts

The Sheriff did not make deposits daily or intact. The Sheriff failed to maintain receipts and disbursements ledgers for his tax account. The Sheriff also failed to prepare monthly bank reconciliations. KRS 68.210 requires the state local finance officer to implement a system of uniform accounts that details minimum requirements for the handling of public funds, which includes, but is not limited to, making daily deposits, maintaining books of original entry for receipts and disbursements and preparing monthly bank reconciliations.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. The practice of not making daily deposits increases the risk of misappropriation of assets.

The preparation of receipts and disbursements ledgers along with monthly bank reconciliations ensures that all tax receipts and disbursements have been properly accounted for. By not maintaining the proper records, it allowed the sheriff to overpay tax commissions causing the account to overdraw and funds having to be transferred back from the fee account

The Sheriff lacks controls over the deposit process and does not provide adequate oversight in this area. We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily to comply with KRS 68.210. In addition, the Sheriff should comply with KRS 68.210 by maintaining receipts and disbursements ledgers along with monthly bank reconciliations.

Sheriff's Response: No response.

2013-002 The Sheriff Should Make Interest Payments To The School And The Fee Account

The Sheriff did not distribute interest earned on tax collections to either the school or the fee account. KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections. By not paying interest monthly, the sheriff was not in compliance with statutes. We recommend the Sheriff implement procedures to ensure the Sheriff pay the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: No response.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 19, 2013 Through April 15, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2013-003 The Annual Settlement Of Tax Collections Should Be Timely Prepared

KRS 134.192 requires each Sheriff to annually settle his tax accounts on or before September 1 of each year. Furthermore, the annual settlement shall be filed in the County Clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of taxes collected and disbursed for the county, school district, and all tax districts. The annual tax settlement was not presented to and approved by the fiscal court until November 24, 2014. We recommend the Sheriff's office comply with KRS 134.192 by timely preparing an annual tax settlement.

Sheriff's Response: No response.

2013-004 The Sheriff's Office Should Report And Distribute Taxes Collected By The Tenth Of Each Month

The Sheriff did not report and distribute taxes collected by the tenth of each month. KRS 134.191 requires the Sheriff's Office to report and distribute taxes collected by the tenth of each month. By not preparing monthly reports and paying the districts timely, the Sheriff was not in compliance with the statute. In addition, we noted eight (8) checks payable to the Health district totaling \$6,442 were prepared and signed and not mailed and were still in a folder in the Sheriff's records. We recommend that the Sheriff report and distribute taxes collected by the tenth of each month.

Sheriff's Response: No response.

2013-005 The Sheriff Should Distribute 10% Add-On Fees On A Monthly Basis

The Sheriff did not distribute 10% add-on fees on a monthly basis. KRS 134.430(3) states the Sheriff shall be entitled to an additional ten percent (10%) for all delinquent taxes collected from the time the ten percent (10%) fee becomes applicable through the sale of the tax claims. This fee shall be added to the total amount due and paid by the person paying the delinquent tax bill and then distributed to the Sheriff's fee accounted monthly. The Sheriff collected \$18,384 for 10% add on fees for 2013 collections. We recommend the Sheriff pay add on fees as required.

Sheriff's Response: No response.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 19, 2013 Through April 15, 2014
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2013-006 The Sheriff Should Eliminate The Deficit In The 2010 Property Tax Account

The Sheriff has a deficit of \$2,964 in his 2010 tax account. Deficits are primarily due to undeposited receipts. The disposition of the 2010 tax account is as follows:

Cash Balance	\$ 4,053
Unpaid Liabilities:	
County	\$ 1,143
School	3,788
Health	242
2010 Refunds Paid by 2011 Fee	498
2010 UMC Commissions	1,169
Commissions Due Fee	<u>177</u>
Total	<u>7,017</u>
Deficit	<u>\$ (2,964)</u>

In order to pay the liabilities due the districts and different accounts noted above, \$2,964 should be collected from the Sheriff personally and deposited into the 2010 tax account. We recommend after all receivables be collected and liabilities be paid in order to close this account.

Sheriff's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties for receipts and disbursements. The Sheriff has not implemented proper internal control procedures. Good internal controls dictate the same employee should not be handling receipts and disbursements, recording in the ledger, and preparing monthly reports.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff's office did not report and did not distribute tax collections timely to the taxing districts.
- The Sheriff's office did not distribute interest income timely to the school district.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 19, 2013 Through April 15, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff's office did not distribute add-ons fees timely.
- Tax Commissions were not calculate properly for Gas and Oil taxes for the state and county districts.

If the Sheriff cannot adequately segregate duties we recommend he implement compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, the Sheriff could compare the monthly reports to the receipts and disbursements ledger for accuracy. Compensating controls that are performed should be documented by initialing and dating the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursement ledger, and reports.

Sheriff's Response: No response.

